

ONTARIO FINANCES

2002-03 SECOND QUARTER

QUARTERLY UPDATE - SEPTEMBER 30, 2002

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Ontario

Ministry of Finance

Fiscal Summary (\$ Millions)

	Actual 2001-02	Budget Plan	Current Outlook	In-Year Change
Revenue	63,886	66,544	66,611	67
Expenditure				
Programs	52,523	54,384	54,494	110
Gross Capital Expenditure	1,890	2,713	2,715	2
Less: Net Investment in Capital Assets*	--	634	634	--
Public Debt Interest				
Provincial	8,509	8,550	8,505	(45)
Electricity Sector	520	520	520	--
Total Expenditure	63,442	65,533	65,600	67
Less: Reserve	--	1,000	1,000	--
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	(69)	(11)	(11)	--
SURPLUS / (DEFICIT)	375	0	0	--

* Starting in 2002-03, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets will continue to be booked as expenditure in the year of acquisition.

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

HIGHLIGHTS

2001-02 PUBLIC ACCOUNTS

- ♦ The 2001-02 Public Accounts, released November 7, 2002, reported the 2001-02 audited actual surplus at \$375 million, up \$317 million from the \$58 million interim estimate in the 2002 Ontario Budget.

2002-03 IN-YEAR PERFORMANCE

BALANCED BUDGET OUTLOOK

- ♦ The 2002-03 fiscal outlook is on track with the Budget Plan. As of September 30, 2002, a balanced budget is projected, unchanged from the Budget Plan.

REVENUE AT \$66.6 BILLION

- ♦ The revenue outlook, at \$66,611 million, is up \$67 million from the Budget Plan and \$65 million from First Quarter Ontario Finances, mainly due to increases in federal payments in support of agriculture and Provincial primary care health initiatives.

EXPENDITURE AT \$65.6 BILLION

- ♦ Total expenditure, at \$65,600 million, is up a net \$67 million from the Budget Plan and \$65 million from First Quarter Ontario Finances mainly due to increased support for Ontario farmers and additional forest fire-fighting costs; partially offset by lower Public Debt Interest (PDI) costs.

RESERVE AT \$1 BILLION

- ♦ Ontario's 2002-03 fiscal plan includes a \$1 billion reserve designed to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction if not needed.

FISCAL PERFORMANCE

REVENUE

- ♦ The revenue outlook, at \$66,611 million, is up \$67 million from the Budget Plan and \$65 million from First Quarter Ontario Finances. Major changes this quarter are:
 - ♦ The forecast for Land Transfer Tax revenues has been increased by \$40 million reflecting the robust Ontario housing market.
 - ♦ The Tobacco Tax revenue forecast has been reduced by \$100 million reflecting a larger-than-expected decline in cigarette consumption.
 - ♦ The forecasts for Gasoline and Fuel Tax revenues have increased by \$35 million and \$10 million respectively as a result of stronger economic growth.
 - ♦ Other Federal Payments are increased by \$55 million, including a \$31 million federal contribution towards Provincial payments to Ontario farmers in past years and \$24 million in support for Provincial primary care health initiatives.
 - ♦ Independent Electricity Marketing Operator revenues are increased by \$21 million due to recognition of revenues related to ancillary services, rural rate assistance and remote-area subsidies, consistent with the treatment in the 2001-02 Public Accounts. These revenues were not included in the Budget forecast and offset higher corresponding expenditures.
 - ♦ Miscellaneous revenue is increased by \$4 million from the Victims' Justice Fund to support new initiatives as part of a multi-ministry interim response to the Hadley Inquest into domestic violence.

OPERATING EXPENDITURE

- ♦ Net operating expenditure, at \$63,519 million, is up \$65 million from the Budget Plan and up \$63 million from First Quarter Ontario Finances. Changes this quarter include:
 - ♦ Ministry of Agriculture and Food: An expenditure increase of \$73 million to fund Ontario's portion of a federal-provincial transition program for farmers, partially offset by \$20 million from the Contingency Fund.
 - ♦ Ministry of the Attorney General: An additional \$4 million to fund a legal aid tariff rate increase; \$2 million as the result of the transfer of responsibility for gaming policy from the Ministry of Tourism and Recreation; and an additional \$1 million, offset from the Victims' Justice Fund, for community service improvement grants and domestic violence bail pilot projects as part of a multi-ministry interim response to the Hadley Inquest into domestic violence.
 - ♦ Ministry of Citizenship: An increase of \$1 million for public education and regional conferences as part of a multi-ministry interim response to the Hadley Inquest into domestic violence, offset from the Victims' Justice Fund.
 - ♦ Ministry of Energy: An additional \$21 million, consistent with the treatment in the 2001-02 Public Accounts, to reflect Independent Electricity Marketing Operator expenditures related to ancillary services, rural rate assistance and remote-area subsidies not included in the 2002 Budget, fully offset by revenue.
 - ♦ Ministry of Municipal Affairs and Housing: An additional \$6 million to support the establishment of Smart Growth Panels across the province and to establish the Smart Growth Secretariat to co-ordinate Smart Growth initiatives, fully offset from the Contingency Fund; and an additional \$4 million to help residents, small businesses, farmers, municipalities and municipal organizations affected by severe flooding in Northwestern Ontario earlier in the year.
 - ♦ Ministry of Natural Resources: An increase of \$24 million for forest fire-fighting costs this summer.
 - ♦ Ministry of Tourism and Recreation: An expenditure reduction of \$2 million due to the transfer of responsibility for gaming policy to the Ministry of the Attorney General.

- ♦ The Public Debt Interest forecast of \$9,025 million, consisting of \$8,505 million related to the Province's borrowing on its own behalf and \$520 million related to the interest on debt issued for investment in the electricity sector, is down \$45 million from the Budget Plan and First Quarter Ontario Finances due to lower interest rates and cost-effective debt management.

CAPITAL EXPENDITURE

- ♦ Net capital expenditure, at \$2,081 million, is up a net \$2 million from the Budget Plan and First Quarter Ontario Finances. Changes this quarter include:
 - ♦ Ministry of the Attorney General: An additional \$2 million for the expansion of the domestic violence court program as part of a multi-ministry interim response to the Hadley Inquest into domestic violence, fully offset from the Victims' Justice Fund.
 - ♦ Ministry of Community, Family and Children's Services: An increase of \$5 million to enhance the safety, security and accessibility of women's shelters as part of a multi-ministry interim response to the Hadley Inquest into domestic violence, fully offset from the Capital Contingency Fund.
 - ♦ Ministry of Northern Development and Mines: An increase of \$17 million as a result of the transfer of funds for highway rehabilitation projects in Northern Ontario from the Ministry of Transportation.
 - ♦ Ministry of Transportation: A decrease of \$17 million as a result of the transfer of funds for highway rehabilitation projects in Northern Ontario to the Ministry of Northern Development and Mines.

Statement of Financial Transactions (\$ Millions)

	Actual 1998-99	Actual 1999-00	Actual 2000-01	Actual 2001-02	Q2 2002-03
Revenue	55,786	62,931	63,824	63,886	66,611
Expenditure					
Programs	46,557	47,525	50,401	52,523	54,494
Gross Capital Expenditure	2,215	4,887	2,123	1,890	2,715
Less: Net Investment in Capital Assets*	--	--	--	--	634
Public Debt Interest					
Provincial	9,016	8,977	8,896	8,509	8,505
Electricity Sector	—	520	520	520	520
Total Expenditure	57,788	61,909	61,940	63,442	65,600
Less: Reserve	--	--	--	--	1,000
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	—	(354)	18	(69)	(11)
SURPLUS / (DEFICIT) AFTER PROVISIONAL ADJUSTMENT FOR CCRA ERROR; AND ACCOUNTING CHANGES†	(2,002)	668	1,902	375	0
Net Provincial Debt	114,737	113,715	112,480	112,036	112,025
Accounting Changes (included in Net Provincial Debt above)					
Provisional Adjustment for CCRA Error			(2,043)		
Retirement Benefits			197		
Net Impact of Accounting Changes			(1,846)	(1,846)	(1,846)
NET PROVINCIAL DEBT - BEFORE PROVISIONAL ADJUSTMENT FOR CCRA ERROR; AND ACCOUNTING CHANGES	114,737	113,715	110,634	110,190	110,179

* Starting in 2002-03, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets will continue to be booked as expenditure in the year of acquisition.

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

† Includes provisional adjustment for Canada Customs and Revenue Agency error; retirement benefits accounting policy change in accordance with new Public Sector Accounting Board recommendations; and adjustment to decrease in stranded debt from electricity sector restructuring to be recovered from ratepayers.

Selected Economic and Fiscal Statistics

	Actual 1998-99	Actual 1999-00	Actual 2000-01	Actual 2001-02	Q2 2002-03
Gross Domestic Product (GDP) at Market Prices (\$ Millions)	377,897	409,099	433,446	443,852	463,825
Ontario Population (000s) - July 1	11,387	11,528	11,698	11,895	12,068
Ontario Revenue as a per cent of GDP	14.8	15.4	14.7	14.4	14.4
Ontario Revenue Growth (%)	6.2	12.8	1.4	0.1	4.3
Ontario Total Expenditure as a per cent of GDP	15.3	15.1	14.3	14.3	14.1
Ontario Total Expenditure Growth (%)	2.3	7.1	0.1	2.4	3.4
Ontario PDI as a Share of Revenue (%)	16.2	15.1	14.8	14.1	13.5
Ontario PDI as a Share of Total Expenditure (%)	15.6	15.3	15.2	14.2	13.8
Ontario PDI as a per cent of GDP	2.4	2.3	2.2	2.0	1.9
Ontario Surplus / (Deficit) as a per cent of GDP	(0.5)	0.2	0.4	0.1	0.0
Net Provincial Debt per capita (\$)	10,076	9,864	9,615	9,419	9,283
Net Provincial Debt as a per cent of GDP	30.4	27.8	26.0	25.2	24.2

Sources: Ontario Ministry of Finance and Statistics Canada.

JOB GROWTH CONTINUES IN 2002

- ◆ The Ontario economy added 58,400 net new jobs in the third calendar quarter of 2002 (June to September), after gains of 28,700 in the second quarter and 31,300 in the first quarter.
- ◆ In October, Ontario employment rose 20,300 following a gain of 32,300 in September.
- ◆ Ontario's unemployment rate was 7.2 per cent in October.

CONSUMER SPENDING RISING

- ◆ Ontario retail sales were up by 7.6 per cent in July and August compared to the same period a year earlier.
- ◆ Ontario auto sales increased 5.0 per cent over the same period.

HOUSING MARKET REMAINS STRONG

- ◆ Ontario housing starts rebounded 6.5 per cent in the third calendar quarter of 2002 with the level rising to 85,100 units, the second highest level of activity in over twelve years. Over the first ten months of 2002, housing starts rose 16.3 per cent from the same period a year ago.
- ◆ Ontario home resales are up 12.8 per cent over the first nine months of 2002, compared to the same period in 2001.

MANUFACTURING SHIPMENTS UP

- ◆ Ontario manufacturing shipments rose 5.8 per cent in July and August compared to the same period a year earlier.

KEY ECONOMIC INDICATORS
(% Change from previous period, unless indicated otherwise)

		Annual	Annual	Quarterly					
		2000	2001	01:1	01:2	01:3	01:4	02:1	
Output (Seasonally Adjusted at Annual Rates)*									
Real GDP	Ontario	4.6	1.5	(2.5)	2.7	(3.0)	0.9	6.9	
Nominal GDP	Ontario	6.0	2.4	3.2	3.9	(1.4)	(1.5)	10.6	
Other Indicators (Seasonally Adjusted)									
Labour Markets									
Labour Force (Change in 000s)	Ontario	157	137	17	17	47	44	11	
Employment (Change in 000s)	Ontario	184	91	12	7	44	32	20	
Unemployment Rate (%)	Ontario	5.7	6.3	7.1	7.2	7.2	7.3	7.2	
Household Sector									
Retail Sales	Ontario	7.3	2.6	3.2	0.3	0.6	N/A	N/A	
Urban Housing Starts (000s)	Ontario	67.4	70.1	76.9	91.0	77.3	73.2	85.7	
New Home Sales**	Toronto	11.0	3.0	19.3	8.4	(0.9)	37.3	N/A	
MLS Home Resales**	Ontario	(1.0)	10.3	(3.5)	(1.3)	(4.3)	15.5	N/A	
Manufacturing Shipments									
Transportation Equipment	Ontario	6.2	(6.4)	(0.5)	2.0	0.4	N/A	N/A	
Consumer Price Index**									
	Ontario	2.9	3.1	1.2	2.1	2.9	2.3	N/A	

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, Greater Toronto Home Builders' Association, Canadian Real Estate Association and Ward's Automotive.

* Annual growth rates reflect November 7, 2002 release of Statistics Canada Provincial Economic Accounts. Quarterly data may be revised with the forthcoming release of Second Quarter 2002 Ontario Economic Accounts.

** % change from a year earlier

N/A = Data not available

ONTARIO FINANCES
FINANCIAL TABLES

REVENUE

(\$ Millions)	Actual 2001-02	2002-03		
		Budget Plan	Current Outlook	In-Year Change
TAXATION REVENUE				
Personal Income Tax	19,097	19,085	19,085	—
Retail Sales Tax	13,803	14,230	14,230	—
Corporations Tax	6,646	6,150	6,150	—
Employer Health Tax	3,502	3,695	3,695	—
Gasoline Tax	2,192	2,260	2,295	35
Fuel Tax	659	655	665	10
Tobacco Tax	703	1,325	1,225	(100)
Land Transfer Tax	665	735	775	40
Other Taxation	371	225	225	—
	47,638	48,360	48,345	(15)
GOVERNMENT OF CANADA				
Canada Health and Social Transfer (CHST)	6,211	6,808	6,808	—
Social Housing	524	530	530	—
Student Assistance	31	64	64	—
Medical Equipment Trust	190	--	--	—
Indian Welfare Services	123	127	127	—
Young Offenders Act	118	61	61	—
Bilingualism Development	61	64	64	—
Employability Assistance for People with Disabilities	72	33	33	—
Infrastructure	—	225	225	—
Other	424	278	333	55
	7,754	8,190	8,245	55
INCOME FROM GOVERNMENT ENTERPRISES				
Ontario Lottery and Gaming Corporation	2,255	2,300	2,300	—
Liquor Control Board of Ontario	904	954	954	—
Ontario Power Generation Inc. and Hydro One Inc.	179	480	480	—
Other	7	9	9	—
	3,345	3,743	3,743	—
OTHER REVENUE				
Vehicle and Driver Registration Fees	941	963	963	—
Other Fees and Licences	627	692	692	—
Liquor Licence Revenue	530	515	515	—
Royalties	224	237	237	—
Sales and Rentals	344	2,424	2,424	—
Independent Electricity Market Operation Revenue	384	160	181	21
Local Services Realignment - Reimbursement of Expenditure	1,116	751	751	—
Miscellaneous	983	509	515	6
	5,149	6,251	6,278	27
TOTAL REVENUE	63,886	66,544	66,611	67

OPERATING EXPENDITURE

(\$ Millions)	Actual 2001-02	2002-03		
		Budget Plan	Current Outlook	In-Year Change
MINISTRY				
Agriculture and Food*	456	572	645	73
One-Time and Extraordinary Costs	319	--	--	--
Attorney General	983	966	973	7
Board of Internal Economy	124	117	117	--
Citizenship	71	69	70	1
Community, Family and Children's Services	7,742	7,814	7,814	--
Consumer and Business Services	172	171	171	--
Culture	279	277	277	--
Education	8,354	8,746	8,746	--
Teachers' Pension Plan (TPP)	42	149	149	--
Energy	367	119	140	21
Enterprise, Opportunity and Innovation	222	264	264	--
Environment	265	244	244	--
Executive Offices	19	21	21	--
Finance - Own Account*	902	802	802	--
Public Debt Interest				
Provincial	8,509	8,550	8,505	(45)
Electricity Sector	520	520	520	--
Community Reinvestment Fund	557	582	582	--
Health and Long-Term Care	23,713	25,452	25,452	--
Major One-Time Health Care Costs	190	--	--	--
Intergovernmental Affairs	4	4	4	--
Labour	110	114	114	--
Management Board Secretariat	263	230	230	--
Retirement Benefits	63	(42)	(42)	--
Contingency Fund	--	861	832	(29)
OPS Employee Severance (Net)	(17)	--	--	--
Municipal Affairs and Housing*	1,135	688	701	13
Native Affairs Secretariat	13	15	15	--
Natural Resources	438	413	437	24
Northern Development and Mines	75	77	77	--
Office of Francophone Affairs	5	3	3	--
Public Safety and Security	1,601	1,530	1,532	2
Tourism and Recreation	144	133	131	(2)
Training, Colleges and Universities	3,248	3,521	3,521	--
Transportation	664	772	772	--
Year-End Savings	--	(300)	(300)	--
TOTAL OPERATING EXPENDITURE	61,552	63,454	63,519	65

* Preliminary allocations pending finalization of new ministry structures. All other ministries reflect recently announced government structure.

CAPITAL EXPENDITURE

(\$ Millions)	Actual 2001-02	2002-03		
		Budget Plan	Current Outlook	In-Year Change
MINISTRY				
Agriculture and Food*	29	197	197	--
Attorney General	46	51	53	2
Community, Family and Children's Services	31	27	32	5
Consumer and Business Services	--	1	1	--
Culture	14	10	10	--
Education	17	10	10	--
Energy	50	69	69	--
Enterprise, Opportunity and Innovation	19	39	47	8
Environment	19	16	16	--
Water Protection Fund	1	3	3	--
Finance – Own Account*	11	24	24	--
SuperBuild Millennium Partnerships	--	110	102	(8)
Contingency Fund	--	100	92	(8)
Health and Long-Term Care	205	342	342	--
Management Board Secretariat	28	46	46	--
Municipal Affairs and Housing*	12	4	7	3
Native Affairs Secretariat	3	6	6	--
Natural Resources	70	80	80	--
Northern Development and Mines	371	376	393	17
Public Safety and Security	88	92	92	--
Tourism and Recreation	9	125	125	--
Training, Colleges and Universities	49	67	67	--
Transportation	818	1,018	1,001	(17)
Year-End Savings	--	(100)	(100)	--
TOTAL GROSS CAPITAL EXPENDITURE**	1,890	2,713	2,715	2
Less: Net Investment in Capital Assets***	--	634	634	--
Net Capital Expenditure	1,890	2,079	2,081	2

* Preliminary allocations pending finalization of new ministry structures. All other ministries reflect recently announced government structure.

** Gross Capital Expenditure includes the following: i) acquisition or construction of major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) and other tangible capital assets; ii) repairs and maintenance; and iii) transfers for capital purposes.

(\$ Millions)	2002-03		
	Budget Plan	Current Outlook	In-Year Change
SCHEDULE OF NET INVESTMENT IN CAPITAL ASSETS			
Acquisition/Construction of Major Tangible Capital Assets	1,367	1,367	--
Amortization of Provincially Owned Major Tangible Capital Assets	(733)	(733)	--
Net Investment in Capital Assets***	634	634	--

*** Starting in 2002-03, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets will continue to be booked as expenditure in the year of acquisition.

ONTARIO'S 2002-03 FINANCING PROGRAM

(\$ Millions)	Actual 2001-02	2002-03		
		Budget Plan	Current Outlook	Change from Budget
Surplus / (Deficit)	375	--	--	--
Adjustments for:				
Non-Cash Items Included in Surplus	(2,323)	(2,875)	(2,875)	--
Amortization of Tangible Capital Assets*	--	733	733	--
Acquisitions of Tangible Capital Assets*	--	(1,367)	(1,367)	--
Maturities of Debt	(9,485)	(11,725)	(11,738)	(13)
Early Redemptions of Debt	(1,581)	(1,200)	(1,200)	--
Canada Pension Plan Borrowing	--	688	358	(330)
Decrease / (Increase) in Cash and Cash Equivalents	193	3,000	3,000	--
Increase / (Decrease) in Short-Term Borrowing	626	--	--	--
Other Sources / (Uses) of Cash**	(86)	--	--	--
Long-Term Public Borrowing Requirement	12,281	12,746	13,089	343
of which: Completed			8,897	--
Remaining			4,192	--

* Starting in 2002-03, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets will continue to be booked as expenditure in the year of acquisition.

** Includes net repayment from, or loans to, agencies and an increase or decrease in deposits with the Province of Ontario Savings Office.

- ◆ Long-term public borrowing undertaken in the second quarter was \$3,939 million as follows:

	(\$ Millions)
Global US Dollar	2,303
Domestic Issues	1,142
Euro Medium Term Notes	494
	3,939

- ◆ Global U.S. Dollar issues accounted for 58 per cent of borrowing for the Province in the second quarter. The Ontario Financing Authority continues to monitor international capital markets for cost-effective borrowing opportunities.
- ◆ Canada Pension Plan borrowing has not been undertaken to date in 2002-03 as it has not been as cost-effective as public borrowing.
- ◆ In addition to the borrowing and redemptions shown in the table, the Province has bought back \$517 million of previously issued debt, financing the purchases with similar amounts of debt issued at more favourable rates.



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Capital Expenditure Report - Financial Report

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